

CIA/OER/IM 71-19 FRANCE'S ECONOMIC STATE

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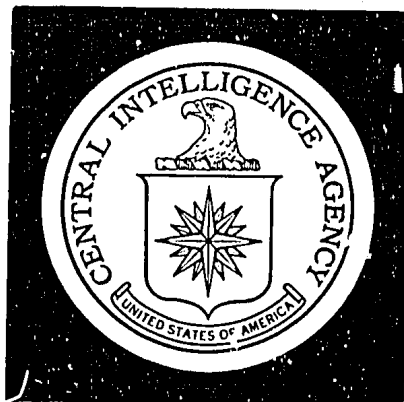
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DIRECTORATE OF
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Intelligence Memorandum

France's Economic Stake In The South Pacific

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1971

INTELLIGENCE MEMORANDUM

France's Economic Stake In The South Pacific

Introduction

France's possessions in the South Pacific are growing in worldwide importance. The area has become a major source of nickel, a metal currently in short supply internationally, and serves as the site of French nuclear testing. This memorandum examines French control over its South Pacific possessions and evaluates the economic trends and prospects of these territories.

Paris and Its South Pacific Possessions

1. Among France's few remaining possessions are numbers of islands stretching some 4,000 miles across the South Pacific (see the map, Figure 1). Included are four island groups -- New Caledonia, French Polynesia, Wallis and Futuna, and the New Hebrides -- with a combined land area of about 17,000 square miles, or about twice the size of Massachusetts. By far the most important are French Polynesia, where France conducts its nuclear tests, and New Caledonia, an important world source of nickel. Some 70% of the 300,000 inhabitants of the French South Pacific live in these two major island groups, which account for more than 90% of the region's gross domestic product (GDP) split about evenly between them (see Table 1).

Note: This memorandum was prepared by the Office of Economic Research and coordinated within CIA.

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Table 1

French South Pacific: Economic Data, 1969

	Thousand Persons		Million US \$				French Aid 1968
	Population	Wage Earners	GDP	Imports	Exports	Tourist Receipts	
New Caledonia	100	21	190	124	131	4	16
French Polynesia	100	20	180	106 <u>a/</u>	13	6	18
New Hebrides	80	6	32	9	12	N.A.	Negl.
Wallis and Futuna	10	N.A.	2	N.A.	N.A.	N.A.	N.A.
<i>Total</i>	<i>290</i>	<i>47</i>	<i>404</i>	<i>239</i>	<i>156</i>	<i>10</i>	<i>34</i>

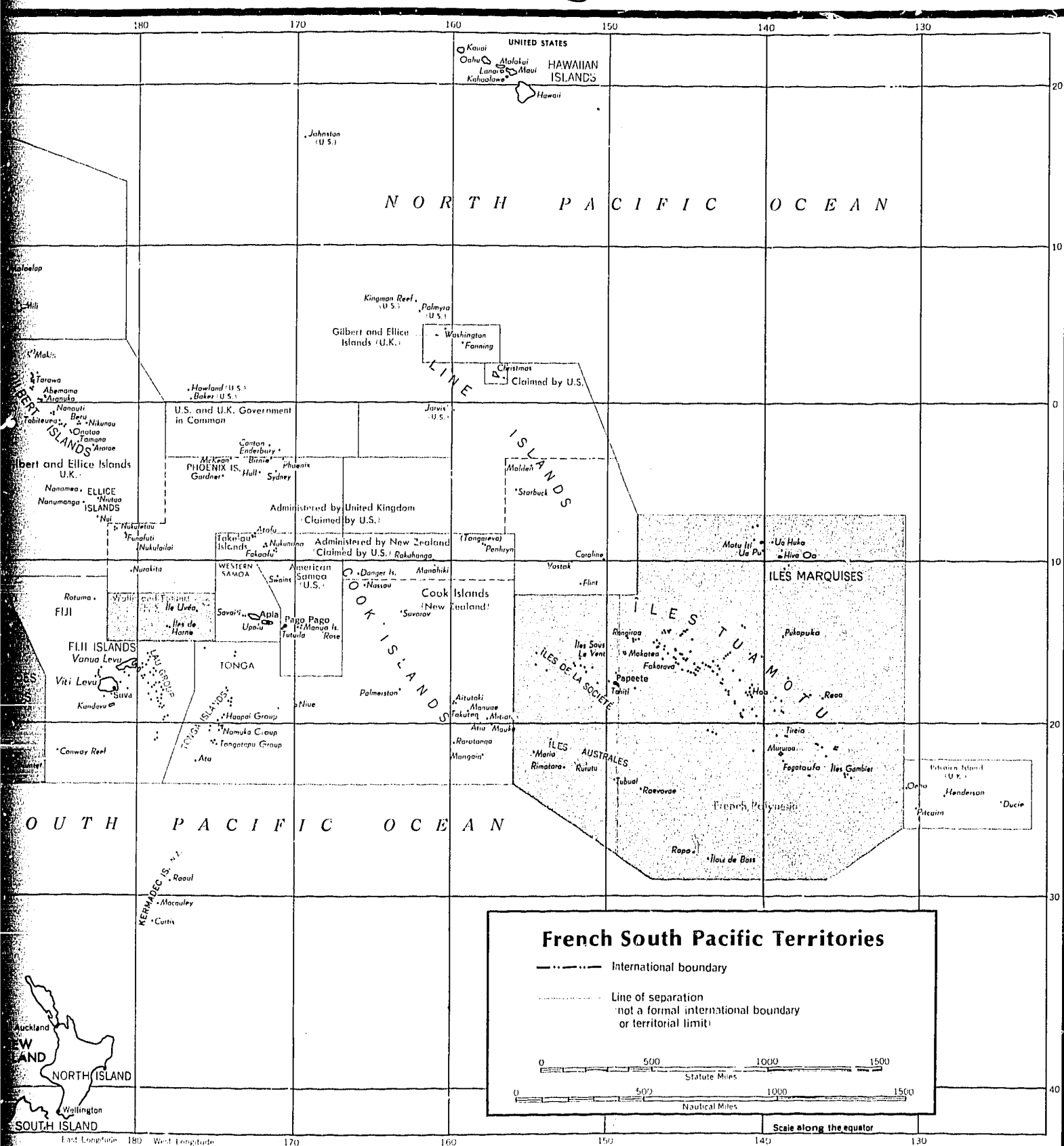
a. Including some equipment and materials imported by the CEA.

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2. Paris has retained tight control over these islands since obtaining possession in the mid- and late 1800s. The French role is especially strong in New Caledonia because the French were forced to import large numbers of Europeans and Asians to work the mines after a revolt by the native Melanesians in 1878. Today the non-Melanesian population comprises more than half the territory's total. This allows Paris to over-ride resentment among the indigenous population over French domination. Local Frenchmen, who control the territorial assembly, indicated a desire for internal autonomy, but this proposal was dropped in 1968 after Paris reduced the assembly's power over financial matters and indicated that French subsidies would cease if autonomy were granted.

3. Although there is little desire for independence in French Polynesia, pressure for local autonomy is increasing. The autonomists seek to elect a Tahitian Prime Minister and to run a local administration with greater control over French-supplied funds. The two autonomist parties, *Pupu Here Ai'a* and *Te Ea Api*, are opposed by the *Union Tahitienne -- Union Pour la Nouvelle Republique*, a business-backed political party supported by French interests* and the roughly 10,000 Chinese. Together these groups control the Polynesian economy and see their position threatened by any moves in the direction of independence. The pro-autonomists are not likely to make much progress in any case, and despite increasing agitation in recent years, French rule remains unshaken. Wallis and Futuna, with a population of only about 10,000 persons,

* There were about 5,000 French permanently living in Polynesia and another 3,000 temporary French residents in 1962, the latest census to give an ethnic breakdown, compared with a total 1962 population of about 85,000. The number of temporary French residents increased rapidly after the establishment of nuclear test facilities in 1963, and the French element probably increased to about 15% of total population.

have little interest in independence and continue to look to France for their economic well-being.

4. The New Hebrides Islands are a special case. The Islands are ruled jointly by the British and French under a condominium arrangement. Each administration maintains its own police, prisons, educational systems, coinage and resident commissioners. Australian currency is also legal tender. In addition, there are three court systems: French, British, and a joint court. It is a cumbersome system, but there is no other alternative acceptable to both French and British interests. The indigenous population voices little demand for independence.

5. Paris is determined to remain in the Pacific in large part because it uses the area as a nuclear test site. Since 1963, extensive facilities have been constructed in French Polynesia where tests are conducted on outer islands by the French Atomic Energy Commission (CEA). Actual testing began in 1966 and since then there have been 21 nuclear tests, about a half dozen of which involved thermo-nuclear devices. The largest device exploded was about two megatons in August 1968. The French plan to continue a full series of tests through 1971, after which the testing program will be reduced significantly and after 1973 put on an as needed basis.

Economic Structure and Trends

6. Like their political life, the economies of the Pacific territories are tightly controlled by France. Import restrictions imposed by Paris favor France, which accounts for about 60% of the region's total imports and about half its exports. For example, Paris must approve all imports and recently refused to allow a New Caledonian mining firm to buy US helicopters, insisting that French ones be used. Frenchmen dominate the islands' modern economy, although the Chinese have considerable interests, especially in local commerce.

7. The territories' average income is relatively high for a less developed region (\$1,200 per capita) because of the large French and Chinese communities. Living standards of these groups compare with those in Western Europe, but the native population lives a traditional existence, producing

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enough crops to meet their needs. Many earn some cash income by working occasionally as unskilled laborers in service industries or by growing small amounts of cash crops, but few have fulltime wage employment. Only on Polynesia is a large portion of indigenous people employed in the modern economy.

8. Economic activity in the area increased rapidly during the 1960s -- about 15% annually -- while there had been near-stagnation in the previous decade. At that time, only New Caledonia's then small nickel industry was of any export importance, while the other islands were dependent on a few export crops grown mainly by French planters. The rapid growth in economic activity since 1963 stemmed from the development of nuclear test facilities in Polynesia and more recently a rapid expansion in New Caledonia's nickel industry. The New Hebrides meanwhile benefited from tax laws which have encouraged international companies to establish their nominal headquarters there.

9. Through the mid-1960s most economic growth occurred in French Polynesia where large sums were spent developing nuclear test facilities. CEA's investment in French Polynesia averaged about \$30 million annually between 1963 and 1967, and its total annual expenditures there averaged about \$80 million. The steep rise in CEA outlays diverted manpower to construction and service industries and consequently agriculture stagnated. Some light industry was established to help meet the rising demand for consumer goods. But by and large Polynesia's vastly expanded economy is dependent on the nuclear test facility. This is reflected in the fact that the government accounts for 30% of the territory's GDP and a like percentage of the wage earning labor force.

10. Economic growth in Polynesia slowed dramatically after 1966 when the CEA's construction program was completed. Growth in GDP probably declined from 30% annually during 1963-66 to under 5% for the remainder of the decade. The territory has avoided any serious problems, however, because CEA operational spending has remained heavy and there has been increased French aid. In recent years this aid amounted to almost \$20 million annually -- nearly

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\$200 per capita, which would at least equal per capita income in most Free World less developed countries. Total French government spending in Polynesia amounted to about \$75 million in 1969, or an extraordinary 40% of GDP. As a result the territory has been able to maintain a relatively high level of imports -- \$106 million in 1969 -- and to sustain income levels. Moreover, despite the slowdown of CEA operations, little unemployment developed. Labor surplus to CEA operations has been absorbed by a major public works program, the migration of workers to New Caledonia, and a growing tourist industry. The number of tourists rose about one-third annually during 1966-69.

11. The New Caledonian nickel industry began to boom just as economic activity in Polynesia slowed. During 1968-69, nickel production increased by about 50% and boosted New Caledonia's economic growth rate to nearly 20%, compared with about 10% in the earlier part of the decade. Little of the prosperity, however, has spilled over to the indigenous New Caledonians, as it did to the natives of Polynesia. The highly cohesive social system and deeply imbedded tribal customs have kept most Melanesians from working more than a short time outside the tribal area. They have benefited, however, from such developments as improved water supplies financed by local government earnings from the nickel industry. Direct export duties* on nickel account for more than one-fourth of local revenues, while duties on imports, used mainly to support the nickel industry, account for most of the remainder.

12. By providing new employment opportunities, the nickel boom has also been of benefit to other French South Pacific territories. Besides the three to four thousand French Polynesians who reside in New Caledonia, ethnic Wallis and Futuna islanders are employed in large numbers and remit income to their home islands. This is especially important for the small island group where there is almost no modern economic activity. Immigration also has eased the problem of growing population pressure on Wallis and Futuna. At least one-third of the indigenous population of Wallis and Futuna now live on New Caledonia.

* *These export duties roughly equaled 7% of the value of exports in 1968.*

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New Caledonia and Nickel

13. New Caledonia's importance as a world nickel supplier has increased rapidly. With output reaching 90,500 metric tons (metal content) in 1969 (see Table 2), it accounts for about 16% of world production,

Table 2

Production of Nickel a/

<u>Thousand Metric Tons</u>		
<u>Year</u>	<u>World Production</u>	<u>New Caledonian Production</u>
1965	424.9	48.1
1966	412.3	55.8
1967	448.9	61.6
1968	495.8	79.8
1969	481.3	90.5

a. Metal content.

ranking third behind Canada (50%) and the USSR (20%).* Its share is higher in terms of Free World exports -- some 20% -- because most Soviet production is consumed by Communist countries. The significance of the territories' nickel is likely to continue growing as its ore reserves, estimated at 30 million tons of metal content, are about one-third of current known world reserves.

14. The island's nickel producers have been fortunate because the rapid increase in output in recent years coincided with a general world shortage of nickel. This world shortage, dating back to the mid-1960s, was compounded in 1969 by prolonged strikes at the principal Canadian mines. Free World nickel output in 1969 declined by 6% while consumption was down by only about 1%. The world price of refined nickel, set by the International Nickel Company (INCO)

* Country shares of world production are based on 1968 data because strikes in Canadian mines during 1969 temporarily distorted the pattern of world production.

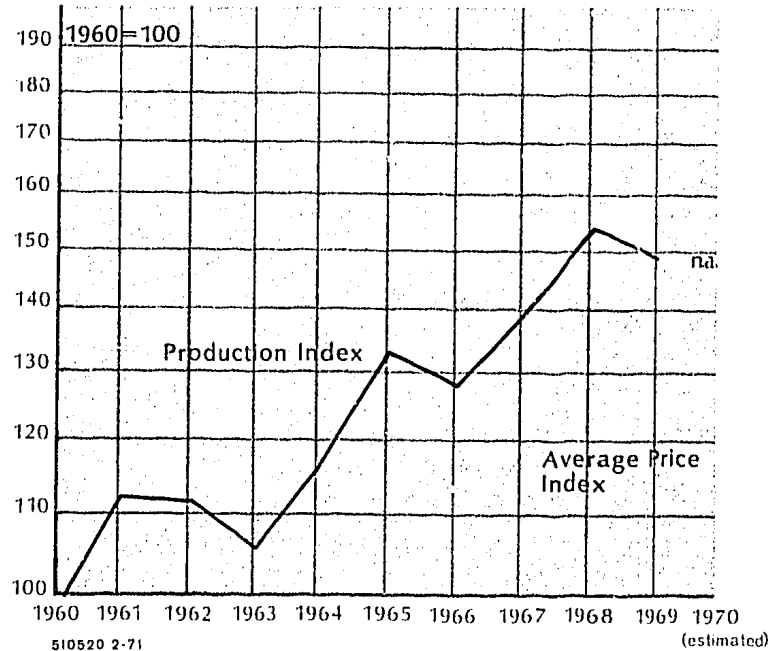
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of Canada, rose from 78¢ per pound in 1965 to \$1.03 in early 1969 and by the year's end jumped to \$1.28. The price in mid-January 1971 stood at \$1.33 (see Figure 2). During the same period New Caledonia's nickel output increased 90% in quantity and 140% in value.

Figure 2

Nickel: World Production and Price Index



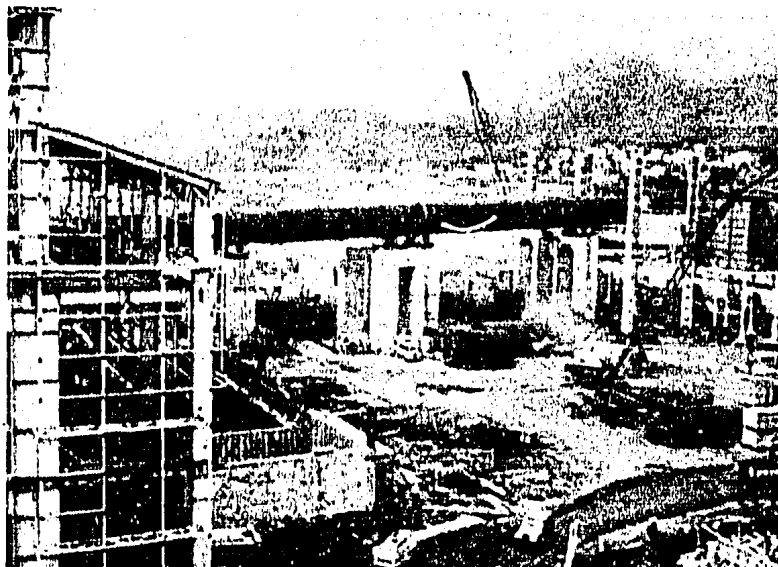
15. The Paris-based Societe Le Nickel (SLN), controlled by the Rothschild group, dominates New Caledonia's nickel industry. SLN mines about half the ore extracted on the island and processes it into semi-refined nickel at its Doniambo smelter (see Figures 3 and 4). The remainder is produced by independent miners who sell most of their ore to Japan and a small amount to SLN. SLN, which produces about 40,000 tons of semi-refined nickel annually, exports more than 90% of its output to France.

16. Paris, seeing the growing importance of New Caledonian nickel, recently tightened its control over the island's major natural resource. In

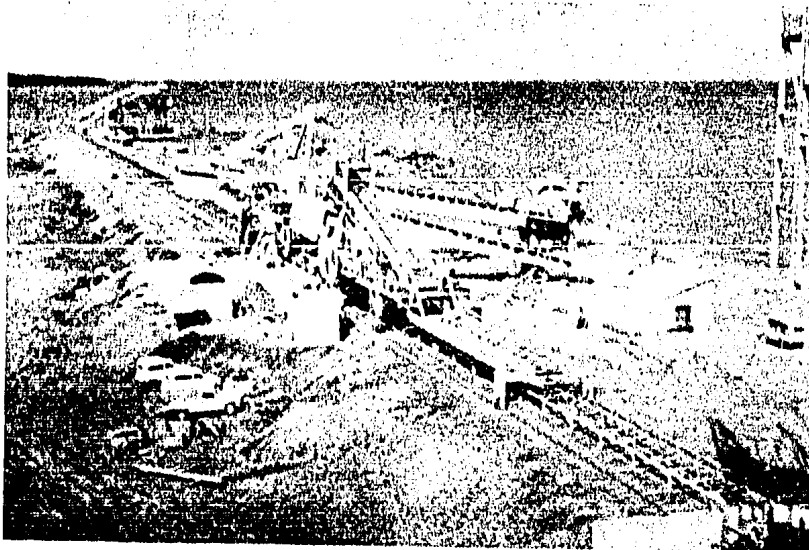
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Figure 3



Expansion of SLN's Doniambo Ferro-nickel Plant

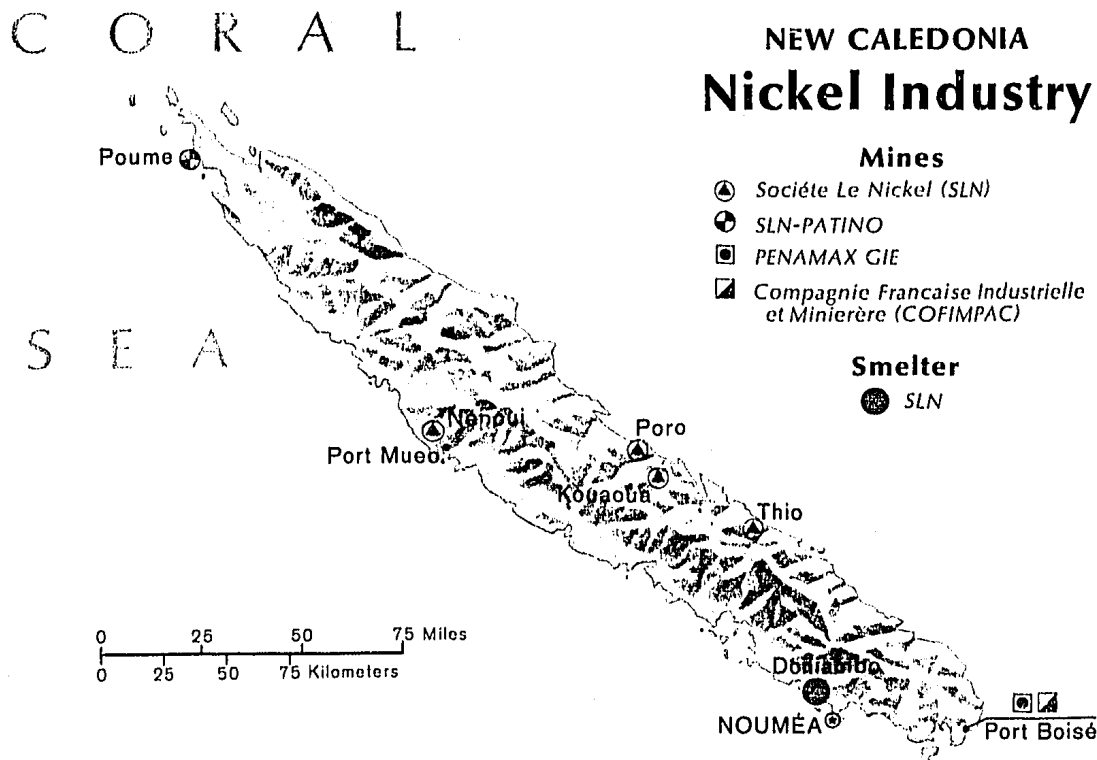


Terminal for the 9-Mile Nickel Ore Conveyor System from the Nepouri Project to the Port of Mueo

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Figure 4



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January 1969 the French Government passed legislation under which all new concessions and extensions or modifications of old ones are referred to Paris for consideration rather than to the New Caledonian Territorial Assembly. The change was motivated by the fear that with an expanding nickel industry under assembly control, the territory would become financially independent of France. In March 1970 Paris imposed quotas on nickel exports to Japan by New Caledonian independent miners. This action was vigorously opposed by the union of independent miners, Syndicat Independent des Mines (SIM), which received a higher price from Japanese buyers than from French companies. After four months of SIM protests, Paris agreed to raise the export quota to Japan by 10%.

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17. The record high prices are spurring development of New Caledonia's nickel resources. If present plans are carried out, about \$800 million will be spent by 1976 to raise semi-refined nickel production to more than 200,000 metric tons annually, or five times the present production level. Some ores would still be shipped, but most nickel would be re-refined on the island. The substantial sums involved have forced SLN and other French companies to take in foreign partners to help finance the undertakings and to provide the technology needed to process New Caledonia's low-grade laterite ores. But the foreign partners will remain minority owners, a reflection of the French penchant for control. The four nickel expansion programs shown below are already underway except for the COFIMPAC* arrangement, the only deal excluding SLN.

DEVELOPMENT PLANS FOR THE NEW CALEDONIAN NICKEL INDUSTRY			
PRODUCER	SHAREHOLDERS	ESTIMATED INVESTMENT (Million US\$)	PRODUCTION GOALS FOR SEMIREFINED NICKEL (Metric Tons)
Société Le Nickel (SLN)	SLN (French) (New Caledonian Nickel, owned by SLN and Kaiser Aluminum and Chemical Corporation (US), is financing the expansion of SLN facilities.)	140	85,000
SLN-PATINO	SLN Patino Mining Corporation (Canada)	205	40,000
PENAMAX GIE	Société Minière et Metallurgique de Penarroya (A subsidiary of SLN) American Metal Climax, Inc. (AMAX) (US)	245	45,000
Compagnie Française Industrielle et Minière du Pacifique (COFIMPAC).	International Nickel Company of Canada, Ltd. (INCO) Société Auxiliaire et Minière du Pacifique (SAMIPAC) Pechiney	200	50,000
		790	220,000

* The French mining consortium, SAMIPAC, was originally slated to hold 60% of COFIMPAC's share, but one member, Mokta, was bought out by SLN, causing dissension among the other consortium partners. The large French mining and metal company, Pechiney, is trying to take over Mokta's interest plus those of some other consortium members. Tentative plans now call for Pechiney and INCO to each hold 40% and the remaining consortium members 20%. INCO, however, will put up 61% of the financing, and have access to 50% of the output.

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18. Free-World nickel consumption is expected to increase 7% to 8% annually and reach about 680,000 metric tons by 1975. Because of new mines being developed in New Caledonia and Canada and to a much lesser extent in Guatemala, the Philippines, Indonesia, and Botswana, overall mine capacity will increase even faster. However, nickel prices are administered by the few companies which control Free-World output, and sharp price declines are unlikely, particularly in the face of growing consumption. With the very large nickel expansion slated for New Caledonia, the island's economy should expand rapidly through the mid-1970s. Even if the COFIMPAC investment should be dropped, new investment would be \$100 million a year, or about \$1,000 per capita.

Outlook

19. New Caledonia's booming nickel industry will continue to be the major growth factor in the French-controlled territories in the South Pacific during the next five years and should generate new employment opportunities, drawing people from French Polynesia and Wallis and Futuna. An increasing number of indigenous New Caledonians are also likely to seek employment in the nickel industry as it spreads to other parts of the island. Economic growth in the New Hebrides will be less spectacular, but the group will probably benefit as it becomes a tax haven for more international companies. Last year the number of firms establishing nominal headquarters there more than doubled. Black power movements in Bermuda and the Bahamas have added to the interest of international corporations in this South Pacific island group.

20. As long as nuclear testing continues on a regular basis, the level of economic activity in French Polynesia will remain high. Paris, however, has already announced plans for a 20% cutback in personnel stationed in the area over the next year or so. This cutback will reduce CEA spending in Polynesia by about \$10 million a year, but the resulting income loss could probably be offset by growing tourism and new employment opportunities

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in New Caledonia. If, as is now expected, the test site is used on an as needed standby basis after 1973, CEA spending may fall by an additional 50%, or \$20 million annually. In this case the offsetting factors would be insufficient to match the loss. To maintain income levels, Paris would have to increase its aid package sharply, to perhaps \$40 million annually or double the present amount. In the absence of more aid, the level of economic activity would be curtailed and almost certainly would create local discontent.

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